

| DEPARTMENT OF HUMAN SERVICES POLICY AND PROCEDURES | | |
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| SUBJECT: CONTRACTOR AUDIT/FINANCIAL REPORTING REQUIREMENTS | | |

DEFINITIONS

A. For Purposes of these requirements:

- (1) **“Department”** or **“DHS”** means the Department of Human Services
- (2) **“Bureau”** or **“BIRA”** means the Bureau of Internal Review and Audit within the Department of Human Services.
- (3) **“Income”** means combined Federal, State, and local government funds received through the Department of Human Services.
- (4) **“OMB”** means the United States Office Of Management and Budget
- (5) **“GAO”** means the United States General Accounting Office.
- (6) **“Single Audit”** means an audit conducted using the standards set by the United States Single Audit Act of 1984 supplemented by OMB circulars, A-87, A-110, A-128, A-133, etc.
- (7) **“Yellow Book”** means an audit conducted using U. S. Government Auditing Standards issued by the Comptroller General of the United States.
- (8) **“Subrecipient”** means contractors who receive Federal funds and (a) determine the eligibility of clients, (b) are responsible for programmatic decisions, and (c) are responsible for meeting requirements of the governmental program. References: Single Audit Act of 1984; OMB Circular A-128, 5m; OMB Circular A-133, attachment 1p&q; OMB Questions About Single Audit Requirements #21-30, pgs 12-19; OMB Questions and Answers on Circular A-133 #46-58, pgs. 30-35.
- (9) **“Service Providers”** means contractors who receive Federal, State and/or local government funds and (1) service the eligible clients determined by the government entity, (2) comply with policies and program compliance set by the government entity, and (3) perform services that may be purchased by other entities in a competitive situation. (References: OMB Questions About Single Audit Requirements #26,pg 16; OMB Questions and Answers on A-133 #57-58, pgs 35,36;)
- (10) **“Vendors”** means contractors that supply goods or services for DHS, through a procurement contract, but normally do not interact with or perform services for DHS clients.
- (11) **“BIRA Rates”** means those rates established by the Bureau of Internal Review and Audit (BIRA) for service codes used in contracting with providers.

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RATIONALE

- A. This policy has been adopted to reduce audit costs but maintain an acceptable level of accountability by contractors and meet Federal requirements. Effective date: July 1, 1996.
- (1) The Department of Human Services (DHS) reporting requirements for contractors shall be based only on those funds that contractors receive from DHS. These are minimum reporting requirements, which may be superseded by higher reporting requirements when all government source income is considered. The Federal Single Audit Act and the State of Utah Legal Compliance Act may dictate higher reporting requirements. Each contractor is responsible for determining their own reporting requirements. The Department will assist contractors with understanding of the government reporting regulations.
 - (2) The Bureau of Internal Review and Audit has the primary responsibility to ensure that all noted audit/review disallowances and major compliance violations are followed-up and resolved either through mutual agreement of all parties or through decisions rendered by the Federal government or the Executive Director.
 - (3) The reporting requirements apply mainly to government entities, charitable organizations, corporations and other business entities whether non-profit or for-profit. Individuals who provide services such as adult and child foster care, housing, day care, special needs, respite care, physician care, nursing care, counseling, therapy, etc. will not be included in the reporting requirements, but are subject to review.
 - (4) All contractors are required to separate the amount received in total from DHS from all other sources of revenue in their audited or unaudited financial report for reconciliation purposes. This amount may be indicated in the statement of support, revenues, and expenses or the statement of activities (non-profit), or appropriate footnote and/or notes to the financial statements.
 - (5) The listed reporting requirements shall be applied to all contractors, whether a government agency, non-profit entity, or a for-profit entity.

SUBRECIPIENT CONTRACTORS

- A. Subrecipients receiving \$100,000 or more in Federal funds from DHS in one year are required to submit the single audit report within 365 days after the end of their fiscal year.
- B. Subrecipients receiving 25,000 or more but less than \$100,000 in Federal funds from DHS in one year are required to submit either a program audit or single audit report within 365 days after the end of their fiscal year.

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SERVICE PROVIDER CONTRACTORS

- A. Service Providers receiving more than \$200,000 from Federal, State and/or a local government income from DHS in one year are required to submit a GAO "Yellow Book" Audit Report within 365 days after the close of the fiscal year.
- B. Service Providers receiving \$25,000 or more but less than \$200,000 of Federal, State, or local government income from DHS are required to submit a financial statement according to Generally Accepted Accounting Principles (GAAP) with a statement of functional expenses in five (5) months after the close of the entity's fiscal year.
- C. DHS funds received as BIRA rates should not be included in determining the reporting requirement income thresholds for service providers. However, as a minimum, an unaudited financial report prepared according to GAAP with a statement of functional expenses will be required of all service providers with BIRA rates.
- D. Individual contractors who service the general public, and may be classified as service providers (such as doctors, nurses, counselors, dieticians, therapists, etc.) are not subject to the reporting requirements, but may be reviewed by the Bureau.

VENDORS

- A. Vendors have no reporting requirements, but are responsible for meeting the procurement requirements of the contract with DHS and may be reviewed by the Bureau.

REVIEWS CONDUCTED BY BUREAU

- A. Desk reviews will be performed annually by the Bureau on the single audit and yellow book audit reports submitted by contractors. These reviews shall be conducted in accordance with the current review procedures outlined by Federal regulations. There will be cooperation between the Bureau and the State Auditor's office to avoid duplication of review time and provide more complete monitoring.
- B. A desk review shall also be conducted on those financial statements submitted by contractors to determine if GAAP principles and statement of functional expense guidelines have been followed.
- C. Fiscal reviews will be performed on selected contractors who are not required to submit the single auditor yellow book audited reports. Selection of contractors to perform reviews on shall be based on risk analysis procedures set forth by the Bureau. Reviews shall be performed on any contractor periodically based on this risk analysis and the available time.

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AUDIT/REVIEW FOLLOW UP

- A. The Bureau will inform contractors, after the due date for submitting audited reports or financial statements has passed, of their delinquency in submitting reports. Contractors will have 30 days to reply or submit their report, after which a letter indicating sanction of the contract will be issued. If no resolution is made, then a sanction letter from the Executive Director's Office will be sent, giving 30 days to comply. Failure to provide an audit report may result in the Bureau questioning costs of all the revenue given to the contractor, recommending the contract be canceled and/or debarring the contractor from future contracts as described in Utah Law.
- B. The Bureau will give an extension of time for contractors to submit their report, if requested in writing and the reasons are considered appropriate.
- C. Within six months following the audit review date, the Bureau will conduct a review of major internal control or compliance weaknesses through correspondence or an on-site visit as the need is determined. This will assure that the corrections and/or improvements have been made.
- D. Minor control and non-compliance weaknesses will be followed up by reviewing them in the next scheduled audit or review.

QUESTIONED COSTS

- A. If, as a result of an independent audit or departmental monitoring, the Bureau determines that the contractor owes the State funds due to disallowance, audit exceptions, or overpayments, the following procedures will be carried out:
 - (1) The contractor will be given 30 days to respond in writing to the recommendations or disallowances cited by the Bureau. If after the 30 days the contractor needs additional time to respond, an extension not to exceed 30 days will be granted.
 - (2) Staff from the Bureau will meet with the appropriate division and the contractor to discuss the contractor's response. If all parties can agree, the amount of repayment and method of repayment will be established and, collected within 30 days. If the contractor can prove financial hardship, additional time or installment payments may be negotiated as provided for in the repayment provisions section of this policy.
 - (3) If the parties involved cannot come to an agreement, the following activities can be carried out:
 - a) If the division/office disagrees with the Bureau and federal funding is involved, they will be given time to seek the approval of the appropriate federal agency. New correspondence must be sent to the federal agency involved with a copy to the Bureau at least once every 60 days in order to prevent assessment.
 - b) If the division/office disagrees with the Bureau and only state funds are involved, the Executive Director will be responsible for making the final decision regarding any questioned costs.

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- c) The contractor will be given 30 days to produce new information or documentation to support its case.

(1) Another meeting will be held with the Bureau, division, and contractor to review the new information and to negotiate a repayment. If the parties can agree at this time, the repayment procedures will be established.

- d) The contractor will be given a notice of 30 days to repay. The notice will also provide a 30-day warning notice for termination of the contract. If the disallowance has not been satisfied within the 30 days, the contractor(s) will be placed on a list of entities and/or individuals not eligible for contracting with the State.

REPAYMENT PROVISIONS

- A. The following types of repayments may be negotiated:

- (1) If only State funds are involved, a current contract with the contractor can be reduced to repay the disallowance. However, the previous level of service must be maintained.
- (2) If the repayment will result in a proven severe cash flow problem for the contractor as documented in financial statements, a maximum repayment period of five years may be established.
- (3) At a minimum, the contractor will be required to repay the federal share of all questioned and disallowed costs. The Bureau and the contractor may negotiate on the state portion of the payback.
- (4) The Bureau and the contractor will sign an agreement outlining the amount and method of repayment, and terms of the agreement.

- B. Repayments other than a reduction of the current contract or immediate lump sum repayment will be turned over to the Office of Recovery Services (ORS) for collection. The Bureau and ORS will negotiate the repayment procedure. All further negotiations and discussion on these repayments will be handled between the contractor and ORS.

Robin Arnold-Williams

DATE: 03-18-96

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